

An alternative method to compute the wage index

ISSUE: The current wage index is based on self-reported data in hospital cost reports. The resulting wage index can be volatile from year to year, can produce wage indexes values that differ substantially between neighboring regions, and requires a separate occupational mix survey and adjustment. In addition, the index is used for many types of providers but is computed from hospital-only data. Through provisions such as reclassification, hospitals can request a different wage index than that initially computed. About one third of hospitals benefit from such provisions.

KEY POINTS: We have explored constructing a wage index from readily available Bureau of Labor Statistics (BLS) and Census wage data. The resulting index has some properties that may alleviate some of the issues in the current wage index such as adjusting for the mix of occupations hospitals employ. The data and methods could also be used to construct wage indexes specific to other sectors such as skilled nursing facilities and home health.

ACTION: We are asking the Commission if we should continue to refine the proposal.

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